ONTARIO SUBMISSION TO THE ROYAL COMMISSION ON THE ECONOMIC UNION AND DEVELOPMENT PROSPECTS FOR CANADA

First Round of Hearings

Ontario

December 5, 1983

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Trade and Economic Development Policy

- The objective of developing internationally competitive firms could be impeded by rival provincial trade and economic development strategies that result in inefficient plants in a fragmented domestic market.

- Canada must vigorously defend GATT and GATT principles.

- The prime concern of development policy in the 1960s and 1970s was regional equity, whereas the pressing need now is for programs aimed at increasing efficiency in Canadian industry and in the allocation of resources between industries.

Intergovernmental Relations

- Canada's regional and federal character must be recognized in any response to emerging economic issues.

- Canada would benefit from a commitment by governments to participate in regular, accountable and open consultations. In addition, regular meetings of First Ministers on the Economy should be held.

INTRODUCTION

The formation of policy for Canada's economic union and its economic development has always been of concern to both federal and provincial governments. At the time of Confederation, and for many years afterwards, governments pursued economic issues largely in isolation from one another, despite the evidence of a close inter-relation between the responsibilities and actions of one government and those of others. But our economic history -- coping with the Depression of the 1930s, harmonizing tax collection, providing for regional economic expansion -- required closer cooperation among governments and national leadership by the Parliament of Canada.

The record of institutional response to economic issues in Canada has generally been a good one. There has been effective parliamentary action in the national interest, effective legislative action at the regional level, and fruitful federal-provincial consultation and cooperation on a number of issues. Certainty has resulted from a constitutional distribution of power, with flexibility provided by an amending formula, and provincial opting out of particular programs.

In addressing today the question of improved institutional response to economic issues, Canada's leaders should consider the full spectrum of potential response rather than relying on ad hoc, piecemeal adjustments.

The institutions of the Canadian federation have been characterized by adaptability. A functional and dated constitutional distribution of economic powers has been adjusted through intergovernmental agreement and judicial review to permit reassignment of responsibilities between levels of government. Regardless of the constitutional division of powers, governments have frequently assumed responsibilities based on the extension of policy instruments within their power. While paramount federal responsibility for the economy remains, the provincial role in economic policy has expanded enormously. The growth of government and of the demands made on it have also resulted in the increasing overlap of responsibilities and jurisdictions of the two orders of government.

The continuing adequacy of the adjustments that have been made will depend, in large part, on the evolving character of our economy, the role of the public sector and the continuing flexibility of our intergovernmental, parliamentary and constitutional institutions. Already, it is evident that

improvements can be made in the way national and intergovernmental institutions are responding to the current range of economic issues. As in the past, Canadians will be faced with economic trends not always of our making or choice, but posing a full and complex agenda to which governments must respond.

The challenge to our national and intergovernmental institutions is thus two-fold: to improve our abilities to formulate and execute economic policy and to fashion institutions appropriate to the economic opportunities and challenges we face in the decades to come.

Part I, which follows, describes the profound and pervasive changes expected in Canada's economy in the years ahead. Parts II and III outline the details of the challenge to policy.

I. CANADA'S LONG-TERM ECONOMIC POTENTIAL: AN ONTARIO PERSPECTIVE

Overview

The decades of the 1980s and 1990s pose great challenges for Canada. While the nation's rich bounty of natural and skilled human resources offer enormous potential for economic growth and renewal, success in achieving this potential will depend not only on domestic circumstances, but also on international conditions and developments.

Canada's future is increasingly dependent upon the state of the world economy. Widespread industrialization in the developing countries, accompanied by a steady expansion of global trade and investment, has increased international interdependence. Canada has seen a significant rise in the relative importance of its external sector in the post-war period -- real exports plus imports as a proportion of Gross National Expenditure have grown from 36.4 per cent in 1961 to 50.9 per cent in 1982. As well, the scope for Canadian governments to pursue autonomous fiscal and monetary policies has steadily diminished in the face of international interdependence.

Consequently, the nation's long-term outlook will be shaped as much by developments in the rest of the world as by the domestic environment. Observers, including the World Bank, expect a transitional phase, during which the world recovers from the 1981-82 recession, followed by a prolonged period of restored growth in the international economy. Among the major near-term factors that could limit Canada's long term potential are the unresolved conflict between stimulative fiscal and restrictive monetary policy in the United States, which is putting upward pressure on interest rates throughout the world, and an increase in protectionist sentiment in the U.S. and abroad, which could reduce Canada's trading opportunities.

Observers expect Canada's economy to grow at a somewhat slower pace over the next two decades than in the past. Employment is projected to grow at about the same rate as in the 1970s but considerably more slowly than during the 1960s. Canada's long-run productivity -- measured as real GNP per worker --will exhibit considerable improvement in comparison with the 1974-82 period, but the growth will be much slower than during the 1954-73 period. Structural adjustment associated with increased international competition and the emergence of new technologies will mean that the impact of growth will be

spread unevenly across Canada's regions. Inflation is expected to moderate from recent times but remain above the rates experienced during the 1950s and 1960s.

Population and the Labour Force

Among the key determinants of long-run changes in the economic and social structure of a country are changes in the size and characteristics of its population. Population growth has important implications for the growth of aggregate demand. Changes in the age composition of the population have implications for labour force growth, the composition of aggregate demand, and the focus of public policies in such areas as education, health care, and social security.

Canada's population growth is expected to slow dramatically relative to the high growth years of the 1950s and 1960s. The most significant demographic change over the next two decades will be the aging of the population. As the baby-boom generation matures, the median age of the population is projected to increase from 29.5 in 1981 to about 37 by the turn of the century. The working age group (aged 15 to 64), is expected to increase in both absolute and relative terms.

Canada's population profile is so dominated by the existence of the baby-boom generation and the trend towards lower fertility that the social and economic policy issues arising from that profile have become clear. But uncertainties are great enough to require flexibility in the design of long-term social and economic programs.

Various social programs will be differently affected by population aging. The cost of providing public services to an elderly person may be two to three times greater than the cost of providing public services to a young person. If current levels of service are to be maintained, the rapidly increasing older population will imply increasing real per capita expenditure on health care.

In contrast, there are likely to be fewer demands on the elementary and secondary education system. Post-secondary institutions, however, may find an increasing market among the adult population.

While the population as a whole will be older, the shift in the age structure will be gradual. Some of the major expenditure responses will not be required until after the turn of the century. Even then, Canada's elderly will

constitute a smaller proportion of the population than the elderly do in many Western European countries today. Governments thus have time to adjust to the demographic transition and to benefit from experience elsewhere.

Future labour force growth is a critical determinant of long-run economic potential. While growth labour force is strongly dependent on projected source population, changes in participation rates -- particularly for women -- add uncertainty to projections.

Increases in participation rates will keep labour force growth above population growth rates; nevertheless, labour force growth will continue to moderate. An annual rate of increase in the 1.2 - 2.0 per cent range is likely for the 1980s and a continuing slowdown can be anticipated at least until the end of the century. The impact of this slowdown on the growth in output of the economy could be moderated by improved productivity.

Even more dramatic is the expected change in the age/sex structure of the labour force. The proportion of young workers will decline, implying less emphasis on labour market entry facilitation over the next decades. The prime-age labour force will be increasingly dominated by the baby-boom generation. As this large group moves through successive age groups, competition for career advancement will become more intense. The increased number of older workers may require policies on flexible retirement and pensions.

The increasing number of women in the labour force will dictate continuing attention to such issues as labour force re-entry adjustments, day care, equal opportunity, and flexible working arrangements.

Industry and Trade

While the sectoral make-up of the Canadian economy over the coming decades is expected to remain largely intact, significant changes will occur within sectors. The resource sector, while experiencing cyclical swings, will continue to provide strength to overall growth. Manufacturing is expected to experience growth during the 1980s and the 1990s, but growth will be uneven in industries that are consumer oriented. Opportunities will arise in export markets, with the demand for capital goods, high technology products and communications equipment expected to be exceptionally strong. At the same time, these sectors face considerable challenge from import competition.

Bright prospects are expected for the service sector with trade, finance and business services continuing to be prominent. The service sector will also benefit from the continuing move towards an information society and tourism will grow with increased leisure time.

Over the short-run, rising protectionism, the debt-service burden of many developing countries and the weaker financial position of OPEC could constrain export growth and development in many sectors.

Over the longer-term, however, the substantial tariff reductions agreed upon at the Tokyo Round of multilateral negotiations should provide Canadian industry with extensive access to wider markets and important new opportunities for increased exports. There are therefore significant growth opportunities for those segments of Canadian manufacturing industries with a comparative advantage. The ability to exploit these stronger areas will depend on the extent to which resources can be shifted from inefficient to more efficient industries.

The structure and performance of Canadian industries have been shaped by prevailing trade conditions, a consequence of the small and open nature of the Canadian economy. Emerging from a history of strong protection, Canadian industries have faced a decline in both domestic and foreign tariff barriers during the post-war era. The advent of a liberalized world trade environment has encouraged a reallocation of economic resources to areas of comparative advantage. The longer-term outlook of further trade liberalization is likely to sustain this process over the next two decades.

While the efficiency gains furnished by trade liberalization provide long-run opportunities for income growth, increasing import penetration necessitates structural adjustment in a number of declining industries. Adjustment costs arising from the displacement of industry-specific human and physical capital can be minimized by the reallocation of resources to competitive and highly specialized segments. Given the constraints of domestic market size, specialization and attendant scale efficiency will require a reorientation of production to international markets.

Two factors may slow the adjustment to the changing trade environment -- the high incidence of foreign ownership and the small size of domestic firms. Both these structural traits are legacies of former regimes of high tariff protection and small domestic markets and, as such, represent market distortions that are deeply embedded in our industrial landscape.

As an integrated continental market emerges from sectoral trade liberalization, foreign firms may shift production to their already rationalized American plants instead of retaining and restructuring Canadian facilities. This would seriously exacerbate adjustment problems, since the threat of foreign disinvestment is greatest in precisely those sectors vulnerable to import competition.

A further problem is posed by the difficulties that small resident-owned firms may encounter when adjusting to a highly competitive continental market. A lack of international marketing experience coupled with resource constraints that limit sales-promotion and distribution capabilities raises serious questions about the ability of small domestic firms to gain access to the U.S market. Market entry for Canadian firms could prove especially difficult in oligopolistic American industries that are dominated by large multinational firms.

II. NATIONAL ECONOMIC GOALS

This assessment of Canada's long-term potential suggests several policy issues which must be addressed if the nation is to maximize opportunities for renewal and prosperity.

Foremost among these challenges are the need for Canada to improve its cost performance, increase its effective participation in international markets and raise its capacity to cope with change and instability. Progress on these fronts will require a consensus on national goals and priorities and a clarification of the roles of the institutions of the federation.

From Ontario's perspective, the economic goals for Canada as a whole are to:

- Generate economic growth and jobs, primarily through the private sector.
- Maintain price stability.
- Achieve balanced regional development and equity of access to public services.
- Train and develop a mobile, flexible labour force.
- Increase research, development and investment to facilitate adjustment in traditional industries and entry into new industries.
- Develop internationally competitive scale-efficient industry (which also implies unimpeded access to the Canadian common market).
- Enhance access to established foreign markets through dissolution of non-tariff barriers and to new markets in the developing world.
- Increase productivity in the public sector.

Macroeconomic Objectives

The dominant challenge on Canada's long-term economic horizon is to sustain non-inflationary growth. Throughout the 1970s, Canada, and indeed all the major industrial countries, experienced substantial increases in inflation. The direct effects of food and energy price shocks, together with the indirect effects of these increases on wage demands and inflation expectations, were major forces pushing up Canada's inflation rate in the last decade. Restrictive fiscal and monetary policies adopted to curb the rise in inflation resulted in slower growth and higher unemployment.

To some extent, inflationary pressures have been generated by international conditions; sharp increases in commodity prices, which are beyond Canada's ability to control, may well recur in the future. Nevertheless, domestic policy can contribute to a less inflationary environment through its impact on wage and productivity performance. By setting an example to the economy as a whole, and by reducing public pressure on credit markets, fiscal responsibility and public sector restraint contribute to the achievement of non-inflationary growth.

Equally important is the equitable distribution of the benefits of national growth. National economic policies have focussed on the need for balanced economic development of all areas in Canada, and the country has a long tradition of regional development assistance, but the reduction of major disparities between regions has proved to be a complex problem. The factors leading to differential regional growth are not unique to the Canadian experience. Even countries with closely integrated national economies have experienced significant inter-regional disparities in growth and levels of income. The physical immensity of Canada and the diversity of economic structure among provinces make for a particularly high degree of regional differentiation.

In a period of slower growth and structural change, it is imperative that regional economic development programs -- and, indeed, the full range of economic and fiscal policies aimed at encouraging growth -- accentuate areas of comparative advantage and not foster, through subsidization, the growth of inefficient industries in economically disadvantaged regions.

Population and Labour Force

Structural change in traditional manufacturing and in parts of the service sector as a result of new technologies will alter the mix of occupations and skills in demand in the future. This transformation will require adaptability and flexibility in the work force.

Continuing education and occupational mobility will assume greater importance in a continually and rapidly changing environment. As the baby boom generation ages, the mobility and adaptability of the labour force may be constrained by the larger number of older workers.

Cooperation among the major partners in the economy will be needed to promote labour market adjustments. Labour unions must recognize the need for

business to adopt new technological innovations to remain competitive, while businesses must aggressively support training. Training institutions must ensure that adequate and relevant programs are in place to train labour for the new technologies. Governments and the private sector must ensure that administrative and regulatory barriers to mobility are minimized.

Industry and Trade

Greater emphasis must be placed on foreign trade as a source of economic growth, particularly since opportunities for growth in domestic markets are likely to be limited by slower population growth.

Canada has long been dependent on foreign trade to a degree that is almost unequalled among industrial nations. Although Canada's exports have traditionally been resource-based, manufactured goods are becoming more important. The share of total exports held by manufacturing products has risen from 7.8 per cent in 1961 to 31.2 per cent in 1981. A large part of this increase was accounted for by increased automotive trade following the Auto Pact. Because of its proximity to the United States, Canada's international trade is more concentrated in one region than is the trade of any other major economy. The increase in manufacturing exports in particular is largely linked to Canada's trade with the U.S.

Canada's export potential will be determined by several major factors: the growth of foreign markets; the competitive capabilities of Canadian industries; and the shift into the high technology world. To realize that potential, it is essential that manufacturing industries achieve the highest possible gains in productivity and industrial efficiency.

The absence of a large domestic market has limited the ability of manufacturing producers to achieve efficient production arising from specialization and economies of scale. The lack of specialization has generally resulted in relatively high unit costs and has constrained Canada's ability to compete effectively in export markets. A liberalized trade environment should facilitate the adjustment towards longer production runs, more industrial specialization and higher productivity.

In turn, the move to rationalized industry in an increasingly open and competitive international market will increase the importance of strengthening the Canadian common market. A further goal, therefore, is to achieve greater integration of the national market. Recent years have seen a proliferation of

provincial barriers to trade, including local sourcing provisions and potentially discriminatory tax legislation. Some of these measures are clearly challenging our success as an economic union, and may risk economic development prospects over the longer run.

Trade performance in manufacturing is closely linked to technological and innovative capacity. The products of high technology industries are expected to be a fast growing component of world trade in the future; countries which acquire leadership capabilities in such industries will have considerable competitive advantage. Increased research and development and enhanced investment will be necessary to realize the potential for growth in both high technology and traditional sectors.

The post-war prosperity of the Canadian economy was predicated on a broadly-based and diversified economy, as well as healthy resource markets and a thriving manufacturing sector. Investment and competitiveness in the industrial heartland will be as important as -- and will provide balance to -- resource development in attaining economic growth.

Public Sector Goals

The long-term economic outlook sketched above has important implications for the financing of the public sector. As world recovery takes hold, real growth will rebound, but unemployment will continue to be a serious problem. High levels of unemployment and regional imbalances will continue to absorb a large share of public expenditures.

Governments will come under increasing pressure to assist faltering industries and to provide transitional and relocation assistance to workers. Industry will require enhanced support for new technology through research and development incentives at the same time that funds are needed to alleviate pockets of technological unemployment. The need for training will increase.

Of central importance is the need to continue to increase productivity and cost-effectiveness within the public sector. With economic growth a major priority, it is crucial that adequate real resources be available for private sector investors. While Canada's public sector is not large relative to many other countries, it is important to our economic competitiveness to ensure efficiency and effectiveness in government programs. Consequently, governments may well need to examine the composition of public spending.

Social spending was the principal factor raising the government share of GNP in the 1950s and 1960s. But the tough competitive world we are entering seems to require greater commitment to economic infrastructure and support.

Tight fiscal situations and concern over the size of the public sector make it imperative that governments avoid duplication and overlap; indeed, eliminating duplication is one way of improving productivity. The Commission should address the question of whether there ought to be a clearer division of responsibilities, with greater attention paid to having services delivered by the level of government that can do so most efficiently.

There must be an increased awareness at each level of government of the fiscal limitations of the other, so that governments do not lever or force one another into programs they cannot afford and that are not viewed with equal priority. Intergovernmental transfer programs require analysis with a view not only to specific ends, but also with regard to what they imply for the growth of government spending in the recipient provinces. Fiscal and taxation policy should be better coordinated to secure effective results, as well as regional and sectoral balance.

III. THE INSTITUTIONS OF FEDERALISM

Parts I and II have described the economic trends and the objectives of Canadian economic policy. The institutional framework of the Canadian federation, broadly defined, is one critical element that determines economic performance. The economic turbulence of the past decade was precipitated in large part by events in the international arena and by structural imperfections in both labour and industrial markets. As a consequence, Canadian institutions were subject to severe strain, particularly as a result of oil price shocks and high unemployment. The task of the Commission is to seek ways to improve the present structures to meet current and emerging issues.

Harmonizing Taxation

Currently, some 75 per cent of corporate taxable income is outside the federal-provincial collection framework, a significant fact in a world where consensus on corporate tax policy is increasingly difficult to achieve. Ontario, Quebec and Alberta have their own corporate tax systems and other provinces have considered following suit. The fragmentation of the corporate income tax system poses the danger that in a highly competitive world, provinces might use their independent corporate tax structures to bid aggressively against one another for new industry. Carried to the extreme, this could seriously erode the common market principle and destroy our economic union. While interprovincial rivalry currently is not a serious concern, it would be productive to provide for the orderly and efficient development of corporate tax policy initiatives across Canada.

- **Consideration should be given to the development of a code of tax conduct for the corporate tax area which would set out boundaries for provincial and federal initiatives.**

There is also cause for concern in the personal income tax field. Provinces are frustrated when the federal government alters the common tax base, especially without prior consultation. Unilateral federal changes to the tax base automatically affect provincial revenues. Provinces have a limited ability to alter the incidence of their income taxes, although the federal government has been quite accommodating through agreements to administer various provincial tax credits, rebates and surcharges. Consideration might be given to the concept of "tax on base" as opposed to the present "tax on

tax" system under which provincial tax rates are simply piggybacked on the Federal Basic Tax.

Stabilization Policies

The federal government has primary responsibility for economic stabilization policy. However, the provinces are constitutionally endowed with taxing and spending powers that enable them to play a role in economic stabilization in their respective economies.

- **A challenge for the future is to rethink stabilization policies in a world of large government deficits and continuing high unemployment, to ensure synchronization between the two levels of government. Improving effectiveness of these policies is made more important by the overall constraints which are put on stabilization by increasing international interdependence.**

It has become apparent that provincial effectiveness in this area is limited. The potential for leakages of stimulation beyond provincial borders will probably increase; the revenue payback from newly generated activity is generally inadequate to offset the initial stimulus; the expected future squeeze on provincial finances could diminish room for discretionary moves.

On the other hand, the federal government has frequently claimed that it no longer occupies sufficient fiscal room to undertake effective stabilization measures.

- **The Commission should address the underlying issue of fiscal balance between the two orders of government, including an examination of possible realignment of program responsibilities.**

Shared-Cost Programs

The distribution of economic and fiscal powers between the two senior orders of government becomes of prime importance in jointly-funded social programs. For example, the escalation of health expenditures caused by increasing utilization rates has created a controversy between the federal and provincial governments over financing arrangements. The federal government has been cutting back its contributions to joint programs while the provinces have fought to protect their transfer levels.

If the long-term objective of overall public sector restraint is to be met, one government must not be in the position of leading another into expensive

programs it does not want. New joint programs should not be introduced without first exploring the cost implications for all governments concerned.

. As a federation, Canada cannot afford to have one level of government thrown into financial difficulty because of inadequate consultation and planning.

Provincial governments will have difficulty coping with demographic shifts if the federal government continues to cut back transfer payments while stimulating program demand. A serious imbalance could develop, necessitating either a large scale transfer of fiscal resources to the provinces or the transfer of significant provincial expenditure responsibilities to the federal level. If both governments are to remain in the field, a negotiated division of labour based on efficiency criteria, with full information sharing, fair rules of publicity and a funding arrangement acceptable to both parties will be required.

Regional Development

One of the most contentious issues facing the country is regional disparity. Through intergovernmental grants and the combined operations of federal tax and expenditure activity, an enormous volume of fiscal resources is being diverted into the less affluent regions to enhance the quality of public services, raise personal incomes and promote economic development.

. A large redistributive effort is part of the Confederation compact. The Government of Ontario continues to support such measures.

Redistribution, however, like all other policies, must not be achieved at the expense of other major goals. There is evidence that both the level and structure of regional redistribution may have created unaffordable inefficiencies and uneconomic industrial structures which, in the long run, cannot survive. This issue is becoming increasingly relevant for Canada's future in light of growing fiscal pressures. Changing circumstances in the provincial distribution of wealth will require that the inter-regional redistribution system be re-examined.

Until now, Canadian taxpayers residing in Ontario have contributed the greatest share to the costs of inter-regional redistribution. That arrangement may have been economically and fiscally responsible in the past, given the province's economic strength; but a new sharing of the burden may now be required.

The wealthy, resource-based provinces will likely be the focus of the redistribution debate in the future. While the revenues of the oil and gas producing provinces have declined dramatically as a result of recession and the recent drop in the international price of oil, their fiscal capacity will continue to grow relative to the non-producing provinces.

The internal transfer of purchasing power from energy consuming regions to producing regions has immensely complicated the task of demand management by traditional fiscal and monetary instruments. It has established the potential for inter-provincial fiscal rivalry, placing wealthy provinces in a position to use their tax and expenditure systems to diversify their economic base. It also opens the possibility that service levels in these provinces could become the standard which other provinces are required to meet.

Only an integrated approach which includes the federal government and the producing and consuming provinces will lead to a rational solution.

- **It is imperative to engage all parties in the discussions on resource pricing and revenue sharing.**

It is unacceptable to rely on bilateral negotiations between the federal government and the producing provinces alone, without considering the broader implications on the nation as a whole.

Apart from equalization, regional development policy has been the major response to regional disparities. While the prime concern of development policy in the 1960s and 1970s has been equity, the pressing need in the future will be for programs to assist in the adjustment of Canadian industry. Instead of inefficiently spreading the locus of economic activity across the country, investments will be needed in training and in the capital stock of specific industries in specific regions to meet the imperatives of the new domestic and international marketplace.

- **Regional economic development must be based on regional comparative advantage.**

Human Resources Policy

Technological advance will create new employment opportunities and new occupations by bringing new processes and products into use. In turn, the pace at which new industries can be developed will be determined by the availability of skilled labour.

Universities will have an important role to play in the structural adjustments that will have to be made in the future. These institutions will ensure a flexible and highly skilled labour force and will provide assistance to industry in research and development efforts. The long-term investments that have been made in the university system have given Canada a comparative advantage in knowledge intensive industries, an advantage which will allow us to adjust and compete in the emerging international economic environment.

- **Education and training must be given high priority.**

Ontario must receive its fair share of national training funds relative to its share of Canadian population and labour force; Ontario's current per capita share of the federal training allocation is the lowest among the provinces. Given the province's large manufacturing base, Ontario, more than the other provinces, will require structural transformation to ensure a strong and prosperous future.

While training is a federal responsibility, the provinces under the constitution have jurisdiction over educational institutions. A difficulty of the current institutional arrangements is that the jurisdiction which provides the major funding -- the federal government -- is not the level which can best assess needs. Training is also an issue for the private sector, for both management and labour. Ontario is concerned that the federal government may rely too heavily on national, macroeconomic forecasting to identify the training needs of the Canadian labour force. Ottawa may ignore specialized knowledge that exists at the provincial and local levels, knowledge that recognizes the specific needs of labour and management.

- **The identification of the requirements of the labour market must be considered a joint responsibility in which provinces, the federal government, business and labour are partners in assessing the requirements of the economy.**

Employment creation programs have been used in the past to provide income support and moderate the worst troughs of the business cycle. Employment policy can also be targetted at structural unemployment by providing, for example, work experience and enhancing labour force attachment. With unemployment projected to remain relatively high over the medium-term, both levels of government will be under pressure to continue to expand employment programs. Duplication and conflict of program objectives must be avoided. Cost-effectiveness must be one of the criteria against which the Commission assesses priorities and mechanisms in this policy area.

- **A key goal should be the harmonization of federal and provincial job creation efforts.**

In the past, provincial job creation initiatives have been focussed mainly at youth while the federal government has addressed employment problems of older workers. These lines have recently become blurred with the unilateral expansion of the federal government in youth employment activities.

The federal government should also consult the provinces in the setting of national priorities for job creation. For example, under the recent federal capital acceleration program, 50 per cent of funding is allocated to Quebec, about a quarter to the Atlantic Provinces and only 12 per cent to Ontario. There may have been a failure to recognize the extent of unemployment in Ontario, caused by the recession and by longer-term structural change in the Province's industrial base.

Trade and Economic Development Policy

The importance of Canada's trade performance to achieving our full economic potential must be reflected in the priority given to trade in national economic development policy. Federal leadership is critical. In recent years, however, the provinces have moved increasingly into trade policy and trade development because of a failure by the federal government to adequately address provincial concerns.

The regional nature of Canada's political system and the different regional impact of trade policies pose major constraints to adjustment. Canada's commitment to GATT principles could help to diffuse regional pressures which run counter to our international obligations and harm the national interest.

Some policies and programs which can affect trade performance fall within provincial jurisdiction.

- **The objective of developing internationally competitive firms could be impeded by rival provincial trade and economic development strategies that result in inefficient plants in a fragmented domestic market.**

Interprovincial and federal-provincial cooperation in establishing policy priorities and directions is a key element in the creation of successful institutions. Such cooperation has produced excellent results where it does exist; for example, the strong cooperation between the federal government and Ontario in promoting the export of educational services.

It should be recognized that a major benefit of trade to the economy is the impetus it provides for improved efficiency, which in turn leads to growth. Especially to an economy like Canada, for which trade constitutes such an important element, expanded trade is the major source of growth. The long term ramifications of both national and provincial protection policies must therefore be recognized. The relevance and effectiveness of GATT as a framework for international trade is currently being threatened by the proliferation of subsidies and non-tariff barriers. Canada must be in a position to respond quickly to unfair trade practices on the part of our international partners. At the same time Canada, more than many countries, needs a multilateral system of trade rules and open market access.

- **Canada must vigorously defend GATT and GATT principles.**

To meet the changing demands of the international marketplace, the Canadian firm, foreign-owned or domestic, must be able to respond quickly. The regulatory and administrative environment should encourage this process, not hinder it. Multinationals should be convinced that investing in Canada makes economic sense in terms of increased efficiency in production, rather than being expected to purchase from non-competitive local suppliers or to serve non-economic goals.

- **The prime concern of development policy in the 1960s and 1970s was regional equity, whereas the pressing need now is for programs aimed at increasing efficiency in Canadian industry and in the allocation of resources between industries.**

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Economic development policy in Canada must support the emergence of internationally competitive sectors. Broad policies which encourage investment, increase the level of research and development and allow for mergers which upgrade efficiency are all essential in producing an environment flexible enough to respond rapidly to changes in the international system.

Intergovernmental Relations

Intergovernmental relations in Canada have had to address a basic, unyielding imperative: the bridging of the deep regional divisions between those that have and those that have not. A second imperative has been the reconciliation of the competing development priorities of the federal and provincial governments. Over the years, the bridging of divisions and reconciling of priorities have been effected through a variety of institutional responses. Continuing to respond to these imperatives requires initiatives founded on a consensus for the purpose of reform.

Constitutional change, improved intergovernmental relations, and parliamentary reform may each be appropriate in different circumstances. The aim should be to tailor the response to the issue. But whatever the reform, the nature of the country must be recognized.

- **Canada's regional and federal character must be recognized in any response to emerging economic issues.**

Intergovernmental cooperation is essential to ensure joint government efforts and consensus in national decisions. But while full intergovernmental partnership rather than unilateral action is required for many economic issues, there should be a range of responses: consultation on initiatives where one level of government is clearly responsible; coordination and harmonization of interdependent programs; and collaboration on joint plans where a common approach by governments is required. Consultation, however, is the minimum requirement.

- **Canada would benefit from a commitment by governments to participate in regular, accountable and open consultations. In addition, regular meetings of First Ministers on the Economy should be held.**